



Federal Acquisition Advisory Panel:

Presentation concerning commercial practices used in acquiring IT and business process services

Todd Furniss, COO Everest Group Presentation

March 30, 2005

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Everest's mission is to enhance the quality and result of client efforts to investigate and implement sourcing options



✍ ***Everest helps clients determine if outsourcing is appropriate***

- ✍ Develop the business case to determine how value can be created
- ✍ Help educate stakeholders on the possibilities and risks

✍ ***If clients choose to outsource, Everest assists clients with the transaction***

- ✍ Help clients manage the complex aspects of outsourcing transactions
- ✍ Apply proven approaches to engaging and evaluating the supplier market
- ✍ Incorporate appropriate incentives into the outsourcing agreement
- ✍ Establish governance models to create and sustain long-term relationships

Experience with IT and Business Process functions incorporating delivery options ranging from joint ventures to shared services and outsourcing

Everest has been involved with over 500 outsourcing transactions making us one of the most experienced enterprise advisors in the market



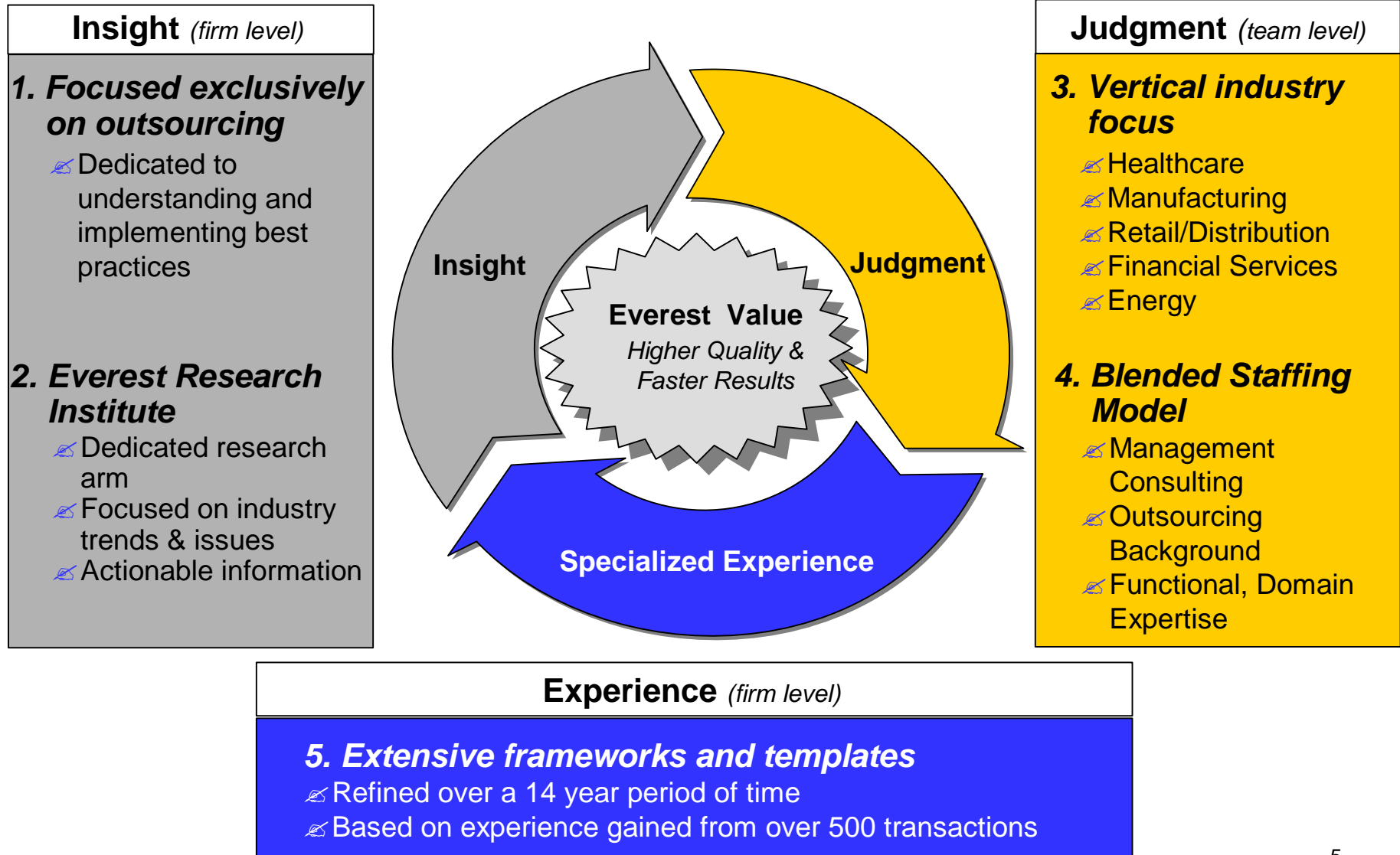
- Founded in 1991
- Offices in U.S., Canada, India, and Australia
- Focused exclusively on sourcing advisory services
- Independent advice – not affiliated with any supplier
- Recognized for our insight and focus in complex situations

Healthcare	Manufacturing Distribution Retail	Financial Services	Other

- Experience with over 30 distinct business processes in IT, HR and F&A outsourcing

Recent ITO engagements & related transaction scope	Outsourcing	Applications	ERP	Data Sec	Midrange	Engineering	Desktop	Video	Voice	Data Center	DR	Benefits Administration	Compensation Administration	Training & Development	Recruiting & Staffing	AP & AR	Fixed Assets	Capital Budgeting	Internal Audit	Tax
Fortune 200 Mfr.	Y																			
Hospital	Y																			
Major Insurance Co.	Y																			
Fortune 200 Energy Co.	N																			
Major Manufacturer	Y																			
Major Manufacturer	N																			
National Railroad																				
Tier 1 MW Healthcare Provider	Y																			

Our perspective derives from the synergy of insight, judgment, and specialized experience as applied to complex client situations...



... which could lead to a certain bias in this discussion



- ✍ The majority of our clients are not bound by the policy interests embedded in the FAR
- ✍ Our procurement experience is focused primarily on sourcing, ranging from internal shared services to outsourcing
- ✍ Whereas we do not believe that outsourcing is appropriate for every client, we believe that the generalized value proposition of outsourcing may be compelling
- ✍ Since we focus on serving clients with complex problems and goals, we tend not to focus on the procurement of commodities or the sourcing of commoditized services

As a result, what follows applies primarily to sourcing and procurement of complex functions and services

We observe certain commercial principles, the implications of which drive our procurement process



Principles

- ✍ Total solution cost ? Total potential value for buyer
- ✍ Buyers have different needs and constraints
- ✍ Suppliers have different strengths and constraints
- ✍ Generally, there may be multiple “optimal” solutions for a given client problem

Implications driving best practice

- ✍ Exclusive procurement focus on the cost of the solution misses the opportunity for additional value capture
- ✍ “Standard” solutions can sometimes produce ill targeted benefits that in fact do not create value for the buyer
 - ✍ The procurement process must therefore channel suppliers’ focus into the objectives and outcomes that are most important to the buyer
- ✍ For the procurement of complex services, intimate understanding of supplier’s capabilities is more important than maximizing the quantity of suppliers that participate
- ✍ A procurement process that allows for unique solutions can still result in best price

The resulting Everest approach is a significant departure from traditional procurement processes



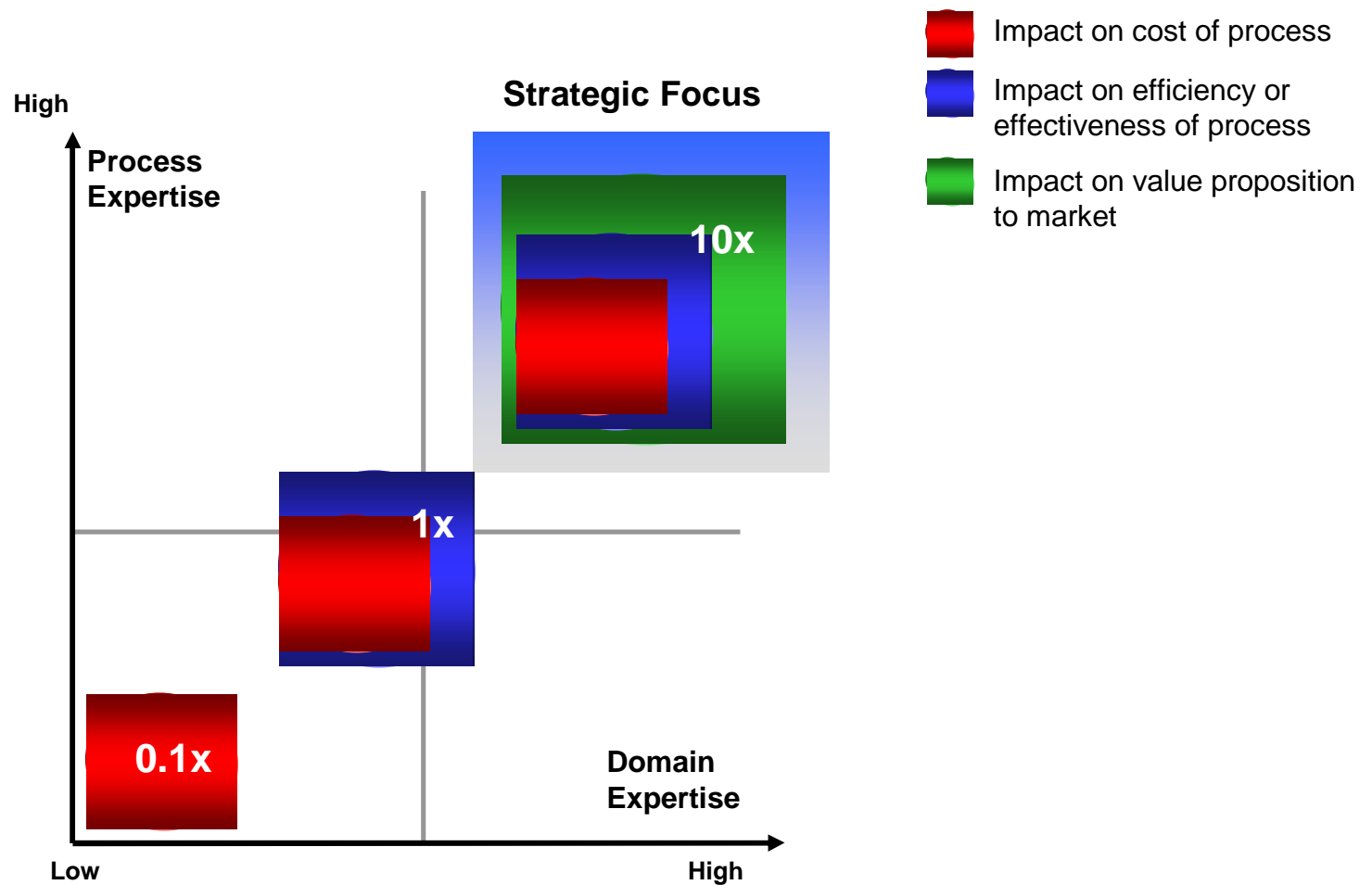
Principles

- ✍ Suppliers commercial incentive drives continuous improvement in their core business
- ✍ Commercial suppliers are **inevitably** economically rational/motivated

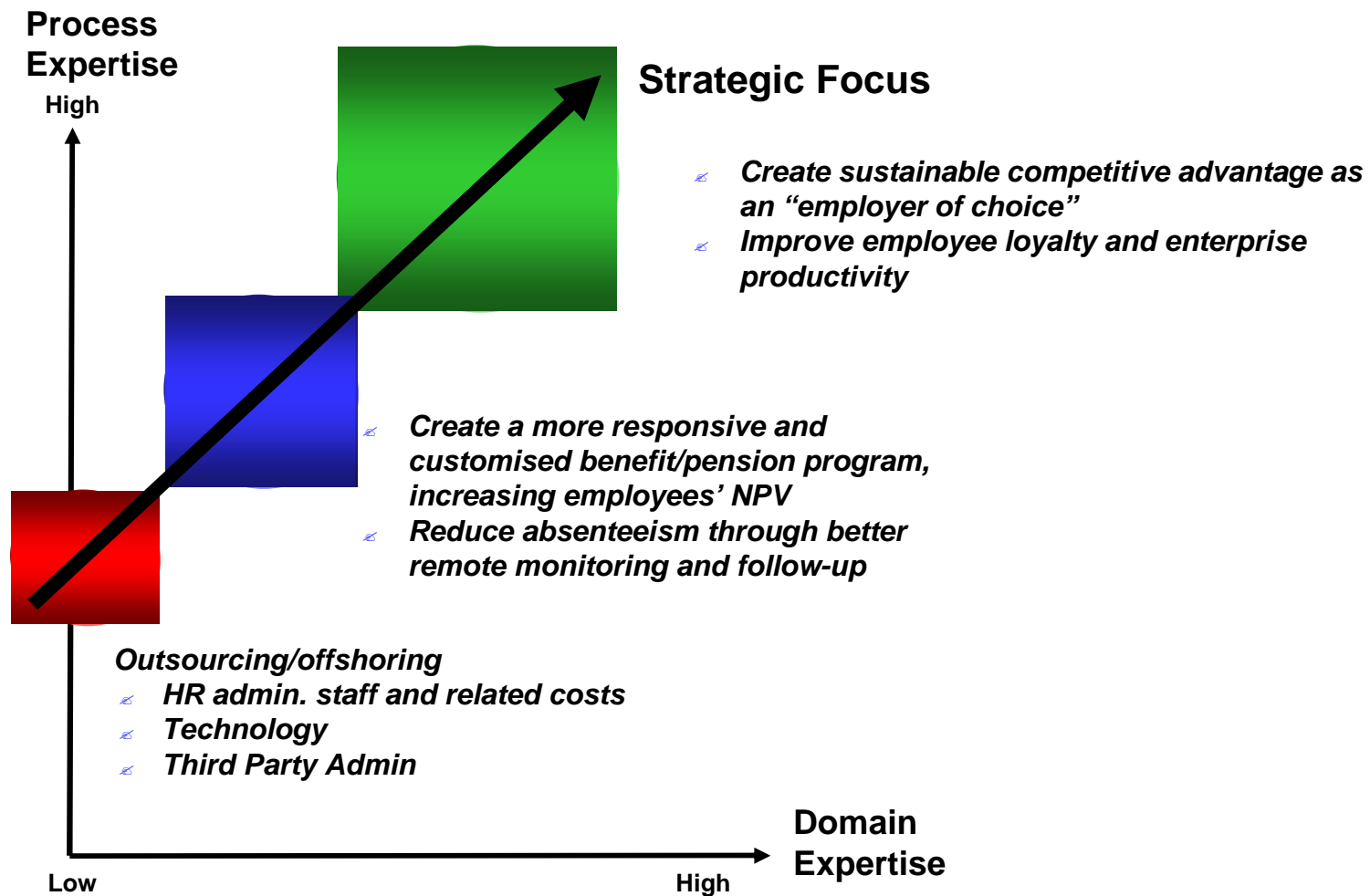
Implications driving best practice

- ✍ In an effective procurement process the buyer does not dictate the solution to the supplier
 - ✍ The suppliers may have a better solution to offer than that asserted by the buyer
 - ✍ Open communication allows the buyer to understand how the supplier's solution generates costs and creates value
 - ✍ An iterative, collaborative design process allows the parties to optimize each supplier's solution
- ✍ In recognizing that the supplier's commercial interest is inevitable, the best practice is to channel the supplier's economic incentives to the supplier and buyer's mutual benefit
 - ✍ Knowing how suppliers realize value is critical to creating options with a full understanding and fair management of the balance between buyer and supplier interests

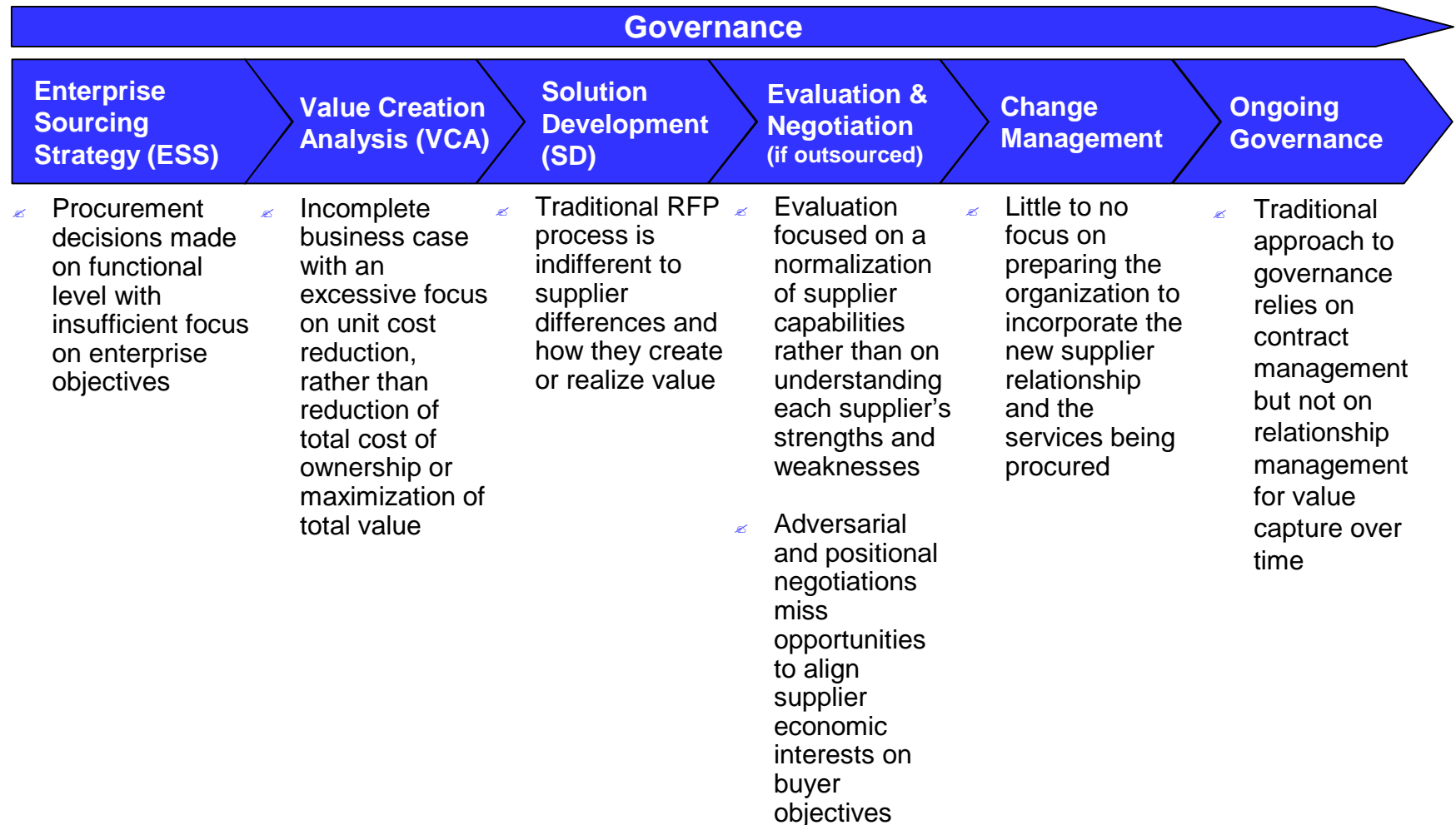
We describe the additional potential value for the buyer (beyond solution cost) in our Total Value Equation™



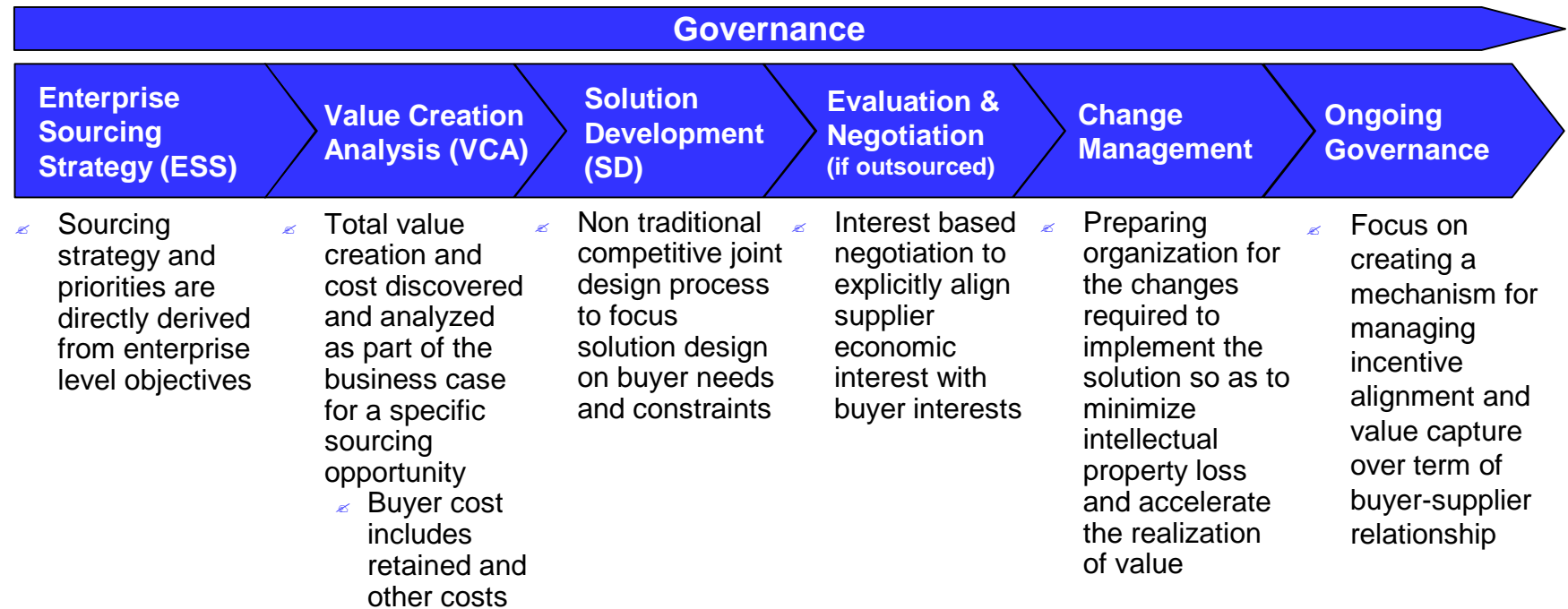
As an example, buyers of HR services can realize tangible benefits on the enterprise level



In developing our methodology, we found that traditional sourcing approaches may be suboptimal in procuring complex services



We observed, captured and implemented practices anchored in commercial principles required to successfully procure complex services



Which in turn drive our answers to the questions from this panel



- ✍ **What is the commercial practice with respect to use of head-to-head competition for services contracts, task orders, etc.?**
- ✍ **What is commercial practice regarding use of firm-fixed price contracts for services?**
- ✍ **What are the terms of the contracts, and what provisions are made for reopening competition?**
- ✍ **How frequently are time and materials contracts used, and under what circumstances?**
- ✍ **Are share-in-savings (or gain savings) contracts used, and under what circumstances?**
- ✍ **What types of performances incentives are normally used, and how is performance tracked?**

Source: Federal Acquisition Advisory Panel Invitation Letter to Todd Furniss, Everest Group



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Federal Acquisition Advisory Panel:

Appendix

Todd Furniss, COO Everest Group Presentation

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Todd Furniss Biography



- ✍ Todd Furniss is widely known for his deep insight into managing organizational and people dynamics, as well as his ability to create momentum to achieve organizational vision. As COO at Everest Group, he manages through all firm activities, overseeing consulting projects in all major industries and heading a consultants who advise Fortune 500 clients worldwide.
- ✍ Industry/equity analysts and institutional investors often consult Mr. Furniss on current outsourcing developments, and he is frequently sought as a presenter at industry conferences and corporate management events. Prior to joining Everest, he served as Director, Corporate Business Development, at EDS, where he was responsible for developing and executing all growth strategies in the Asia Pacific region. His extensive work in large-scale initiatives for many years in the Asian, North American and European regions gives him broad insight into identification of international approaches to growth markets and execution of business alliances and solution development.
- ✍ Mr. Furniss currently is deeply involved in assessing trends and developments in the offshore outsourcing market, assessing key success factors and developing best-practice approaches to the use of low cost labor pools, HR outsourcing, IT outsourcing and a range of other business process outsourcing activities.
- ✍ Mr. Furniss has a BA (Political Science) from Old Dominion University and a J.D. from George Mason University School of Law.